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PRESENTATION

Operator

Good day, everyone, and welcome to the LATAM Airlines Group Earnings Release Conference Call. Just a reminder, this conference is being recorded.

LATAM Airlines Group earnings release for the period was distributed on Tuesday, August 12th. If you have not received it, you can find it on our website www.latamairlinesgroup.net in the Investor Relations section.

At this time, I would like to point out that statements regarding the Company's business outlook and anticipated financial and operating results constitute forward-looking comments. These expectations are highly dependent on the economy, the airline industry and international markets. Therefore, they are subject to change.

Now it's my pleasure to turn the call over to Gisela Escobar, Corporate Controller and IR Director. Please begin.

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Thank you. Hello. Good morning everyone and thanks for joining us on the call. We are going to (technical difficulty). Yes, sorry about that. We are going to go over some slides and give you some highlights of the results that were published last night, and then we will be happy to take your questions.

I wanted to introduce the people here. In the room with me we have Andres Osorio, who is the CFO. We have Claudia Sender, who is the CEO of TAM. We are also joined by Nicolas Goldstein, who is In-Charge of International Passenger Operations and we are joined by Alvaro Carril, In-Charge of the Cargo Operation.



If we go to slide number 1 on the slide presentation, just to go over some of the highlights for the second quarter, as you saw in the numbers, we had during the second quarter a positive operating income in the amount of \$15 million despite various challenges that we faced during this quarter.

I think it's important to understand two different types of effects that we had this quarter. There were a couple of things that were more non-recurring in nature and that had a negative impact on our numbers this quarter; specifically, as we've already mentioned, the World Cup that took place in Brazil from mid-June to mid-July -- and I'll talk about that in a little bit more detail -- and also a very weak seed export season in the cargo business that was a very strong seed export season in 2013 and that therefore had a very negative impact on the cargo results, especially in the month of April.

When we look at the broader context, we are also facing some challenging -- a challenging scenario from a macro perspective. We have the economies in the region that are although healthy, showing slower GDP growth rates than what we had originally anticipated, and also depreciated local currencies, especially in Argentina, in Chile and in certain other countries in the region, and an ongoing very challenging competitive environment especially affecting international operations.

What we've been doing in this context, which is in line with the strategy that we've already outlined, is continue very focused with a disciplined approach to capacity. As we saw in the second quarter numbers, we had a reduction of 1.5% in ASKs in the passenger business and 7.5% in the ATKs in the cargo business, and this resulted on the passenger side at least in an improvement in revenue per ASK of 1.8%.

We also have a very healthy domestic Brazilian market. We are continuing to see improvements in results in the Brazilian market and we continue to have the preference of the corporate passenger in that market. Despite the one-time impact that we had in the World Cup, which is really a non-recurring effect, this market continued to perform very well and to have very healthy [growth].

And we also continue with -- to move forward with our fleet restructuring initiatives and with our fleet renewal. And as we've already explained, has very positive long-term benefit for the Company from a cost perspective and from a competitive standpoint as well.

If you turn to the second slide in the presentation, we have a summary of the numbers. You can see that total operating revenues reached \$3 billion. That was down 1.7% versus last year, with the main impact being a 12.7% reduction in cargo revenue.

We had a 1% approximately decline in operating cost and that led to the \$15 million in operating income and \$396 million in EBITDAR, with an EBITDAR margin of 13% and operating margin of 0.5%.

At the net income level, we had a net loss of \$59 million, which is significantly lower than the \$330 million loss last year. Here we have a huge impact in the change from the exchange rate impact, which comes from the exposure to the Brazilian reais on the TAM balance sheet. As a result of that, we had a loss for exchange rate differences in the second quarter of last year of \$361 million, which this year was a gain of \$104 million.

This also going forward will continue to be mitigated. Over this time, we have reduced our exposure on the TAM balance sheet from \$2.4 billion, which is what we had in June of 2013, to \$1 billion, which is what we had in this June 2014. So we've significantly made progress in terms of reducing that exposure at TAM and we'll continue to reduce that from here until the end of the year.

And also the other element that is important to mention at the non-operating level this quarter is the impact that we had from adjusting the exchange rate for the cash that we have presented for repatriation in Venezuela. We had recognized approximately \$148 million, but that changed -- that implies -- that was at the CADIVI exchange rate, which was VEF6.3 per dollar. We made an adjustment this quarter to the SICAD exchange rate, which is VEF11 per dollar and that resulted in a non-operating loss of \$56 million this quarter.

If we turn to the next slide to look at the main impact on the operating side this quarter, the impact on our margin -- the big decline came from lower yields. If we look overall at the passenger business, we had yields down 2.3% and on the cargo business we had yields down almost 7%. And part of this was recovered by higher load factors in both businesses; especially on the passenger side we've had very high load factors that are 3 points higher than what they were last year and on the cargo side also 1 point improvement in load factors.

Fuel was negative. We have a 5% increase in fuel prices compared to the second quarter last year. And then we have some efficiencies in the other cost line.

When we look at, on the next slide, the passenger business and we look at the revenue per ASK performance in each of the passenger operation, you can see that both on international and domestic Brazil routes we continue to see improvement in revenue per ASK.

On the international routes, this is mainly driven by passenger load factors that continue to be very high. We have a 3.9 point improvement in terms of passenger load factors on the international business and that's offsetting in part the impact of lower yield.

In the domestic Brazil business -- and these are the numbers in US dollars -- we have a 2.9% improvement in revenue per ASK. When we look at this number in reais, it's a 12.9% improvement in terms of revenue per ASK, driven by both higher yields in reais and also higher load factors. And it's also important to note that these are higher load factors from the levels in 2013, which were already very healthy. So we continue to improve on both the load factor and yield.

In the Spanish speaking countries, which are the other five countries where we have domestic passenger operations, Chile, Peru, Ecuador, Argentina and Colombia, we have a 3.9% reduction in revenue per ASK, mainly as a result of lower yield. We have stronger load factors overall, but we have -- yields have been declining in part because of the strong devaluations that we've had in the different currencies in the different markets, but also as a result of generally a more challenging scenario and lower economic growth, especially in Chile, for example.

When we -- if you turn to the next slide, which is slide number 6, and we talk a little bit more about the international passenger operations, here we have a context that continues to be challenging, mainly as a result of weaker demand in the European market and somewhat weaker demand in certain Latin American markets, and a scenario that continues to be very competitive, especially in long haul routes flying to the region where we have many international carriers that have started or are adding capacity into South America.

In addition to that, we've had local currencies in the region depreciate, especially Argentina, where we saw a strong devaluation in the first quarter that negatively affected the demand of international passengers traveling out of Argentina.

And then also in this business unit is where we've seen the impact of Venezuela, where we've made significant capacity adjustments as a result of the issues that we've had there with being able to repatriate our funds.

Our focus in terms of the strategy of the international passenger operations has been to continue with the improvement in terms of our products. We are upgrading our products both by renewing fleet and making upgrades to our existing fleet, specifically the Boeing 777s which will be retrofitted with a new business class starting -- during the third quarter and through mid-2015.

We are also incorporating additional 787s into the operations and we'll have increasingly more routes that will be operated by this new aircraft, which is significantly more efficient. It's approximately 12% more efficient than the 767, and in addition to that, has an improved passenger experience.

And we continued with our project in strengthening the hubs that we are building at the Guarulhos airport, which has been -- which is benefiting greatly from the new terminal at Guarulhos, which was completed in time for the World Cup.

If we talk a little bit more -- on the next slide some highlights related to the World Cup. I think, first, it's important to mention that the operations of TAM during the World Cup especially in the domestic Brazil were extremely successful. We had prepared in advance. Operationally, a very challenging period of time for the Company, mainly because we have -- the World Cup was focused in 12 cities in Brazil and we had a significant increase in demand to travel to those cities around the times that the games were occurring.

So that meant adjustments in terms of our network and additional demand to all those cities in a very concentrated period of time. We were able to have a flawless operation. We had 95% on-time performance, very good customer satisfaction. And so from that perspective, it was extremely positive.



We also, as a result of all of the infrastructure investments that occurred in the period leading up to the World Cup, have been able to, as I mentioned in the previous page, focus on strengthening the hub at Guarulhos airport and we are completing during the next few months the move of the LATAM Airlines Group international passenger operations to the new terminal. So this is a very lasting positive impact of everything that the World Cup will leave in Brazil.

Now on the not so positive side, what we've had and what -- you saw the guidance that we released a few weeks ago. We estimate that there was a negative impact in our results during this quarter that amounts to approximately \$150 million, mostly as a result of decreased revenue.

And this comes mainly because the months of June and July are very high season months, especially in Brazil, where there's a significant amount of demand for domestic travel as well as international travel. It's winter and it's during the vacation period of July. A lot of Brazilians travel internationally and there's a lot of demand coming (technical difficulty), which as a result of the World Cup we didn't see because many -- mostly Brazilians were staying in Brazil to see the -- to experience the World Cup.

So the larger context here was decreased revenues, and we've also obviously during this period because of all the plans that we had in place, we had somewhat a higher cost operation as well. But that's the main impact and the total effect that we estimate including both domestic and international operations is \$150 million approximately both in the months of June and July. So we are seeing a part of this impact this quarter and we will see a part of this impact in the third quarter. But this is included in the current guidance that we've now published a couple of weeks ago.

If we move forward here to talk about the cargo business, during the quarter on the cargo side we saw significant adjustments in terms of cargo capacity, mainly as a result of lower belly capacity that's coming from the lower ASKs in the international passenger business as well as the reduced freighter operations.

Our freighter operation, we continue to be very disciplined in terms of our capacity with freighters and we are evaluating opportunities to continue to adjust freighter capacity and really to focus on the belly operations.

Cargo traffic was down 6%. With that, we had cargo load factors improve, but a very negative impact coming from lower yield. Here, the seed export season is very relevant and we estimate that there's approximately \$18 million of less revenues in the second quarter 2014, specifically in April, as compared to last year because of the 70% lower demand for seed exports by air cargo.

When we look at the cost side, overall we have total operating cost per ASK up 2.6%. And if we look at that number ex-fuel, it's approximately 3.1%. We have on savings in terms of wages and benefits and in general other costs and we have slightly higher aircraft costs, which includes maintenance, depreciation, and aircraft rental expense.

If you look at the next slide, which is slide number 10, you can see our fleet plan for the next -- for the -- what we expect for the rest of this year and for 2015. We are expecting to end this year with approximately 327 jets and 2015 with a similar number of aircraft, 326 aircraft, but with significant renewal of aircraft going on in between.

If you look at the delivery and the redelivery, we have -- during this year we are taking delivery of 20 aircraft and returning 32. Next year we expect to take delivery of 27 aircraft and return 28.

And if you look at the arrow going along the bottom of the chart, you can see the increase in each year in the number of aircraft of the new technologies, which have a significant benefit in terms of cost per ASK and also an improvement in terms of the total passenger experience.

The numbers in terms of fleet CapEx haven't varied significantly. It's approximately \$1.1 billion in fleet commitments this year and \$1.9 billion in fleet commitments in 2015. A part of this is financed with sale and leaseback, approximately one-third, and the rest financed with ECA or Ex-Im supported debt or other market debt.

When we look at the guidance for 2014, which is the next slide, this is the same guidance that we published a few weeks ago. We expect overall capacity to be relatively flat to slightly down, passenger capacity between flat and a decline of 2%, where we have declines in the international



passenger business and in the domestic Brazil operation. And in terms of the Spanish speaking countries, we expect to grow this year between 3% and 5%, which has come down significantly from our original estimate, which was close to 8%.

So here we've made adjustments in terms of our capacity expansion mainly as a result of the dynamics that we are seeing in the domestic Spanish speaking countries.

On the cargo side, we've also adjusted our cargo growth estimate to a decline in capacity between 3% and 5%. And with that, our operating margin estimate continues to be for this year in the range of 4% to 5%.

Finally a few words in terms of the balance sheet, we have a very solid balance sheet as a result of all the restructuring that we did at the end of last year and early this year. We have a solid cash position. We ended June with approximately \$1.7 billion in cash and that represents 13% of our last 12 months revenue, and we continue to see an improvement in our leverage ratio, which is at approximately 5 times EBITDAR.

Those are all the prepared comments that we have regarding the second quarter. I think that covers most of the main highlights and we will be happy to take any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Bernardo Villas, GBM.

Bernardo Villas - GBM - Analyst

My first question is regarding Venezuela, when will you receive the remaining cash balance held in the country?

And just to be sure and correct me if I'm wrong, what you are saying is that the government didn't respect the applicable VEF6.3 per US dollar rate for the profits generated during 2013?

Andres Osorio - LATAM Airlines Group SA - CFO

Hi. Andres Osorio here from Santiago. The deal with the Venezuelan government on the repatriation of the still, I mean, non remitted funds that calls for an exchange rate of SICAD 1. SICAD 1, as you know, is currently at rate of roughly VEF11 versus dollar, whereas CADIVI is 6.3. That's the driver for having taken the one-time one-off of \$56 million.

Now in terms of payment, this deal with the government calls for an initial payment and then remaining payment of the next three years. That's in essence the deal with the government.

Bernardo Villas - GBM - Analyst

Okay, thanks very much. And what would -- will the impact be on your results and profitability coming from the capacity reductions in Venezuela and could we expect further capacity reductions in the year?



Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

For now -- yes, the reductions that we've implemented are approximately 45% reduction in ASKs to the operation that we had last year at this time. And for now we don't have any changes planned to those itineraries. We obviously were -- we are always looking at the network, but for now that's the operation that we are working on.

Bernardo Villas - GBM - Analyst

Okay. What will be the impact on your results and profitability coming from this lower capacity in Venezuela, which, if I'm understanding correctly, is one of the most profitable countries you are in, right?

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Well, last year there was -- I mean it was never -- Venezuela as a total percentage of ASKs was never such a large portion of the international passenger operation for LATAM. We did have flights from many of the different cities where we operate, but the impact that we have is already all quantified in the new guidance that we've given and we expect what we are doing with the capacity is trying to put it in other markets to offset the negative impact that that capacity reduction would result in.

Bernardo Villas - GBM - Analyst

Okay, thanks. And lastly, could you comment on your exposure to the Argentinean market, and how has it been performing both in passenger and the cargo divisions in the last few months?

Unidentified Company Representative

We were expecting a large decrease in the month from Argentina. We see these reductions. However, the reduction is not that big as we were expecting. Instead of the 30%, we are at like a 20%-15% reduction in the demand and this number includes the reduction in number of passengers, and this is going down in both respects.

Bernardo Villas - GBM - Analyst

Okay, thank you very much. I would let someone else ask a question.

Operator

Savi Syth, Raymond James.

Savi Syth - Raymond James - Analyst

Just on the economic weakness that you are seeing in the region, is it mainly Chile and Argentina that's weighing or are kind of the various other regions weak as well?

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Mainly -- well, what we've seen in general is that during this year various countries have brought down their GDP growth estimates. That includes Chile. That includes Peru. It includes Argentina, Brazil. And so it has been I would say occurring throughout the region. In some countries we've

had a more significant impact than in others. But undoubtedly, we've seen a slowdown in economic growth pretty much throughout South America during this first half.

Savi Syth - *Raymond James - Analyst*

Okay, got it. And then on the weak seed export, is that due to timing, is that due to kind of a slowdown in the economy or was there a switch from air freight to maybe ocean freight?

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

Yes, it was for the most -- well, it has to do with timing. So when the seed export season occurs earlier in the year, a large part of it goes by other types of transport, mainly sea. And when there is a delay in terms of the seed export season, which has to do with the weather, basically when it occurs later in the year, most of it goes by air cargo.

And that's what happened in 2013. This year since it occurred earlier, most of it went by sea and that resulted in the decline. We had approximately 11,000 tonnes of seed exported in 2013 and this year it was 5,000 tonnes of seed, specifically in the case of LAN Cargo. So a significant decline.

Savi Syth - *Raymond James - Analyst*

All right. And then --

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

(Multiple speakers) to how that would necessarily evolve going forward. But it was an especially weak season.

Savi Syth - *Raymond James - Analyst*

And if I may have like a follow-up on a previous question on Venezuela, is there -- are you accumulating anymore bolivars in there or is the bolivar accumulation neutral now?

Andres Osorio - *LATAM Airlines Group SA - CFO*

It should be neutral, yes. So the same amount that we have reported shouldn't grow going forward.

Savi Syth - *Raymond James - Analyst*

All right. Thank you very much.

Andres Osorio - *LATAM Airlines Group SA - CFO*

Sure.

Operator

Duane Pfennigwerth, Evercore.



Duane Pfennigwerth - Evercore - Analyst

Regarding the World Cup impact, I guess most of which should fall in the third quarter here, are you seeing any recovery in bookings yet and is it fair to say at least at this point internally that you expect margin expansion to resume in the fourth quarter?

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

Hi, Duane. This is Claudia Sender here. Yes, absolutely we have seen bookings coming back to a very healthy level, very similar to what we were seeing previous -- before the World Cup. Also, the price level, the yield levels have been going up to the same standards that they were before. So, yes, we do expect a much healthier operation for the rest of the second quarter -- of the third quarter, sorry.

Duane Pfennigwerth - Evercore - Analyst

Thanks. And then I guess just from a consolidated level, right, if we bake in an impact in the third quarter and just look at your full year guidance, it seems like it assumes margin expansion resuming in the fourth quarter. I wonder if you guys could comment on that.

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Yes, and it's definitely margin -- I mean we should see margin expansion improve even in August. But obviously the impacts of the third quarter in the month of July, which is seasonally very high, is going to -- is significant. So definitely a healthier margin will be in the fourth quarter.

Duane Pfennigwerth - Evercore - Analyst

Okay. And then have you given any thought -- internally have you at least analyzed maybe a stock repurchase program, and I think investors would certainly appreciate that signal of confidence longer term that you can recover these margins. And thanks for taking the questions.

Andres Osorio - LATAM Airlines Group SA - CFO

No, we don't think about it and we are not planning to do that.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - Deutsche Bank - Analyst

Just a couple of questions here. I want to -- I know in the past you've indicated that you would like to get back to an investment grade credit rating. And when I look at the press release, in the balance sheet section you talk about getting to this long-term leverage ratio of 3.5-4 times and then maintain the cash liquidity of approximately 15%. And it would seem that if you really wanted to get to an investment grade credit rating, you will probably have to have a leverage ratio a little bit lower than that, maybe more like in the 3 times area.

So I'm just -- is this a change in that long-term view? Do you still aspire to get to an IG rating or is it just going to take longer than you anticipated?



Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Hi, Mike. If you read the [letter] -- I mean we definitely -- we have not changed our targets in terms of the balance sheet indicator. The 3.5 times leverage is what we see as the investment grade level, of course if it's coupled with healthy margins, healthy cash generation and the right liquidity level. And those are the levels of leverage that LAN had in the past when it was investment grade rating.

So we don't necessarily think that we need 3 times or less to be investment grade. We think that in between 3.5 we should be able to get there. And it continues to be our objective. But as you correctly say, I think that objective today is probably more [Technical difficulty] 2016 or a further event than a next year event.

Mike Linenberg - Deutsche Bank - Analyst

Okay, good. Fair enough. Just another question, when -- I know that Azul has announced that they are going to start flying long-haul from Brazil to the US and it has actually been sometime since TAM has actually had to go head-to-head with a local carrier flying internationally long-haul. And I'm just curious how you think about the potential competitive threat. When you look at Viracopos and you look at just the amount of flights that they have in that market -- and my sense is that maybe they won't rely as much on the local market, Viracopos to the US, but it may be more with respect to flow traffic.

And I just wondered if that -- that's something that you are looking at closely. How do you think about that as a competitor? Does it make sense for you to fly long-haul out of Viracopos? Just your thoughts on that.

Unidentified Company Representative

Yes. We know they are entering by the end of this year and we were expecting that and we are preparing to compete as we are doing with other carriers, American Airlines already. We have to bring change in the offer. Now they are going to fly from Viracopos. We are also going to add more -- some more capacity from Guarulhos. We are thinking in adding some other frequencies from Brasilia also and indeed we are going to complement and have more cities from the domestic Brazil market going to US.

Mike Linenberg - Deutsche Bank - Analyst

Perfect, very good. And if I could just squeeze in one more, you are going to redeliver 39 airplanes over the next 2 years and you have to think that as you return airplanes there has got to be some cost associated with that, some cost headwind. And I'm just -- I'm curious about what that impact may be annually to turn back those airplanes. And of course there is some training events associated with them as pilots move away -- say, this last year 737s to the Airbus, narrow bodies. I mean do you have any estimate on what that is? Is it a margin point headwind? How do we think about that?

Roberto Alvo - LATAM Airlines Group SA - In-Charge of Fleet Business

Yes. Hi, Mike. This is Roberto Alvo. We have already delivered some 40 airplanes in the last 18 months. We have accounted for a one-time impact on this issue on the first quarter. You may remember that. We do account for the day-to-day normal redelivery processes in our number. So it has all been accounted for. And, yes, there is an expense, but it varies, depending on the type of airplane, the age of the airplane and the redelivery conditions.

The impact is not significant. All of the numbers that we have is the numbers that we have given you already on first quarter [one kind of studies].



Mike Linenberg - Deutsche Bank - Analyst

Okay, fair enough. Okay, thank you.

Operator

Eduardo Couto, Morgan Stanley.

Eduardo Couto - Morgan Stanley - Analyst

A couple of questions from my side, first on the cost. Did you have any fleet restructuring expense in the second quarter similar to the first quarter or there's no fleet renewal expenses this quarter?

Andres Osorio - LATAM Airlines Group SA - CFO

Only the fleet expenses that are associated to the airplanes that have been redelivered during the quarter in the normal course of business. So no important or relevant expenses that haven't been accounted for particularly in the first quarter, a one-time expense that we [did].

Eduardo Couto - Morgan Stanley - Analyst

Are you expecting an additional expansion for the upcoming quarters still?

Andres Osorio - LATAM Airlines Group SA - CFO

And just -- we have a few more redeliveries this year and the impact throughout the year is not significant.

Eduardo Couto - Morgan Stanley - Analyst

Okay, thanks. Second question on the -- still on the international routes out of Brazil. Are you anticipating like strong competition in terms of fares given that, as you mentioned, America is starting to fly out of Campinas in December, Azul also flying. So is there a risk? Do you see a pricing war on these Brazilian international routes by the end of this year or no?

Nicolas Goldstein - LATAM Airlines Group SA - CEO - International

This is Nicolas again. What we observe is that there's a lot more capacity addition than demand, and as we know in this industry, this is a thing that happens and the industry tends to correct. We reduced this capacity and we expect others to reduce. And this excess of capacity is impacting the yield. Thanks god our reduction give us -- gave us an improvement in the RASK and we expect that others are going to follow us in this direction.

Eduardo Couto - Morgan Stanley - Analyst

But actually, the others are adding, right? So my point is do you think 2015 could be a tough year in terms of international yields out of Brazil?

Nicolas Goldstein - LATAM Airlines Group SA - CEO - International

We do believe that we are going to arrive to a new equilibrium in the short-term. I wouldn't say like 6 months, 12 months. I don't know. But if you see the cycles of this industry, we will arrive to a new equilibrium.



Eduardo Couto - Morgan Stanley - Analyst

Okay. And just another question on -- recently we saw the Brazilian government sending to Congress a law to subsidize the regional flights in the country. I just want to hear your thoughts on if TAM is going to participate of this regional plan and when do you expect to have a final decision if you are going regional or not?

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

Hi. This is Claudia again. Well, we are always looking into new opportunities for growth. The regional is definitely an opportunity that has been in our radar for quite some time now. And we look at the opportunity from -- it has to make sense from both a strategic and financial standpoint regardless the subsidy.

So if the subsidy, from our perspective, the business has to make sense, and the growth in Brazil has been coming from the smaller cities faster than some of the bigger front grounds. So, yes, it's something that we are looking into very closely and we expect the outcome, decision, by the end of this year.

Eduardo Couto - Morgan Stanley - Analyst

And the timing between taking the decision and starting to fly is like 6 months, 12 months, how long does it take?

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

I would say anything between 6 and 18 depending on the type of fleet and then how we go about purchasing or leasing it.

Eduardo Couto - Morgan Stanley - Analyst

Okay. And a final question on the impact of the World Cup. Why the impact was so much bigger in July vis-a-vis June given that the World Cup was more or less balanced between June and July? I was wondering why the July impact is four times bigger than the June impact.

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

That has everything to do with seasonality. July historically is one of our strongest months where you still have a lot of corporate traffic and you have very strong leisure traffic in a region -- as you know, July is a very concentrated travel month. So in general both the yields and the traffic are stronger in July than in June. That's why the impact is so much higher.

Eduardo Couto - Morgan Stanley - Analyst

Okay, thank you.

Operator

Thomas Kim, Goldman Sachs.

Thomas Kim - *Goldman Sachs - Analyst*

I wanted to go back to the Venezuela currency question. At what point during the quarter did you shift to a SICAD 1 in recognizing your revenue?

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

It happened at the close of the quarter. Basically, the adjustment that we made is we have the cash in Venezuela that amounts to -- that had been presented for repatriation to CADIVI, and that amounts to VEB930 million approximately.

So the adjustment that was made is that that cash in bolivars was presented on our balance sheet at the 6.3 exchange rate. And we basically recognized an exchange rate difference when we changed at the close of the month of June the CADIVI exchange rate to the SICAD exchange rate, which is 11.

Thomas Kim - *Goldman Sachs - Analyst*

Okay. So just to make sure I get the math right. What was the ending cash? Is it the \$147 million minus the \$56 million? So you are at net 92 million in US dollar terms at the end of the second quarter?

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

Yes, that's right.

Thomas Kim - *Goldman Sachs - Analyst*

Okay.

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

Yes.

Thomas Kim - *Goldman Sachs - Analyst*

And then so in the -- so obviously 1% -- last time you mentioned that Venezuela is about 1% of revenue. Obviously, not necessarily a big number. But if you've got to book revenue now in SICAD 1, then that 1% is going to drop to basically a few bps at that point. And is that also reflected in your guidance?

Gisela Escobar - *LATAM Airlines Group SA - Corporate Controller and IR Director*

It is reflected in our guidance, but also it's important that the revenue from our international operations is booked in US dollars.

Thomas Kim - *Goldman Sachs - Analyst*

Okay.



Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

So the adjustment that we made is in our cash balance, not in the revenue recognition, which is always in US dollars.

Thomas Kim - Goldman Sachs - Analyst

Okay. All right. That's helpful. Can you just walk me through the process behind going to SICAD 1 versus some other companies that have actually already moved to SICAD 2?

Andres Osorio - LATAM Airlines Group SA - CFO

Hi. This is Andres Osorio. What happened in Venezuela is there's a problem with the money that was presented to CADIVI on 2013 and then you have the regular operation of 2014. 2014 has been booked all the airlines at SICAD 1 because that is the official period to integrate, presented to the CADIVI or whatever it is or to the government.

When going over the money of 2014, there has been some payment or allowed to repatriate at the SICAD 1. Many agreements have been signed among different airlines to the government. Some of them have -- in order to repatriate money have accepted a haircut of whatever, a 30%-40%, and then they pay with both -- our -- dollar at 6.3, which is the same amount if you go to SICAD 1, which is our case. We have agreed with the government that we will have the right to repatriate \$148 million at SICAD 1.

If you in the past have the right to repatriate at 6.3, it's kind of the same thing that -- having a haircut cut of 35%. But what we are talking here is at what exchange rate you convert your bolivars that you have in Venezuela. And that is why we decided if all the -- if the business today is running at SICAD 1 and mainly -- or the agreement with the government of Venezuela to repatriate the money of 2013 is at SICAD 1, we decided to convert our money that we have in Venezuela to SICAD 1. And that put us on a one-time loss adjustment of \$56 million, okay.

Thomas Kim - Goldman Sachs - Analyst

Okay. All right. And just -- I know you are recognizing in dollars, the revenue in dollars. But if you -- do you -- and for future revenue recognition or at least from a real cash standpoint for your originating traffic out of Venezuela, would you be booking effectively at the SICAD 2?

Andres Osorio - LATAM Airlines Group SA - CFO

No, SICAD 2 is another market like an official black market, because the official currency today is 6.3.

Thomas Kim - Goldman Sachs - Analyst

Yes.

Andres Osorio - LATAM Airlines Group SA - CFO

Then there's the SICAD 1 market to the airline. And SICAD 2 is a market that the government allows you to sell or to trade dollars on a different price. But the fares today in Venezuela are taken on SICAD 1, so you sell tickets in bolivars thinking that's SICAD 1. And then you can present it to the government authorities your request to repatriate your money at SICAD 1.

Therefore, in terms of margin, we are much at the fares that we are selling with the money that we are presenting to repatriate. And there are some delays. But the government of Venezuela has paid in 2014 to different airlines at SICAD 1 during this year. But Venezuela is day-to-day living, so -- and we have put all our best forecast of what is going to happen in Venezuela in our guidance for the end of this year.



Thomas Kim - *Goldman Sachs - Analyst*

Okay. I appreciate all the additional color. And then just with regard to the Argentina situation, can you give us some benchmark to help us understand what the impact will be with the FX? So like with regard to Argentina I think it's like 7% of your revenue. So it is material. How should we be thinking about the FX impact on your non-op expense and then obviously, more importantly, even from a cash flow perspective?

Andres Osorio - *LATAM Airlines Group SA - CFO*

Before passing -- the answer of that question will be presented by Nicolas. But the problem with -- in Argentina there is no restriction today with the dollars. So the impact is basically on the selling and the buying and Nicolas will explain that. But from the financial point of view, so far we haven't faced any problem of repatriating line or paying dollars or bills abroad.

Nicolas, please?

Nicolas Goldstein - *LATAM Airlines Group SA - CEO - International*

Yes. As I mentioned before, we were expecting a bigger downside from Argentina due to the crisis they are having down there. However, we still see passengers growing and buying tickets with a reduction close to 8% on the (inaudible) on the yield and the amount of passengers reducing in total 20% the impact. But we were expecting, as I mentioned before, a bigger reduction and we are seeing this number growing and going back to regular numbers. Each week we are seeing these numbers getting better.

Thomas Kim - *Goldman Sachs - Analyst*

Okay, thank you very much.

Operator

Daniel Guardiola, LarrainVial.

Daniel Guardiola - *LarrainVial - Analyst*

I just had a couple of questions. First of all, I would like to know if you can please share with us what's the breakdown -- the current breakdown of the revenues and costs per currency and what measures are you putting in place to increase your USD linked revenue generation?

My second question is a follow-up of the -- coming back to IG metrics. And basically would like to know what measures are you putting in place to reduce your leverage at the balance sheet level and if you are planning on doing any divestitures looking forward? Thank you.

Andres Osorio - *LATAM Airlines Group SA - CFO*

We didn't quite get the first question. Could you please repeat the first question again?

Daniel Guardiola - *LarrainVial - Analyst*

Yes, of course. So basically the first question is I want to know what's the current breakdown of the revenues and costs per currency.



Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Yes, well, regarding that, in general we have approximately one-third of our revenues denominated in Brazilian reais and approximately 27% of cost in reais. And that -- so we have an operating exposure to the devaluations in the Brazilian currency.

For the rest of the currencies, for the rest of the local currencies, we have more or less a natural hedge because we have approximately the same amount of revenues as costs denominated in the different currencies. So from an operating perspective our most significant exposure is the Brazilian reais.

Daniel Guardiola - LarrainVial - Analyst

Okay. And in that sense --

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Regarding --

Daniel Guardiola - LarrainVial - Analyst

Yes, sorry. And I just want to know in that sense what measures are you putting in place to increase your USD linked revenues generation?

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Sorry. Can you repeat that -- to increase what?

Daniel Guardiola - LarrainVial - Analyst

Your USD -- US dollar linked revenue generation.

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Well, first, the exposure that we have to the Brazilian reais is a reality, right, because we have a very significant domestic operation in Brazil. And there are certain things that can increase the US dollar revenues in -- generation in domestic Brazil; for example, a larger percentage of domestic tickets sold internationally, things like that that can reduce this exposure.

But we also have a financial hedge that hedges that exposure. We have -- we took for the full year \$760 million hedge of the reais at an average of about 2.34 reais per dollar for the year. So this is an exposure that we have to live with, and in addition to that, we have a financial hedge at least for this year.

Daniel Guardiola - LarrainVial - Analyst

Okay. And regarding the second question, regarding the IG, coming back to IG metrics, I just want to know if you are planning on doing any divestitures anytime soon.

Andres Osorio - LATAM Airlines Group SA - CFO

We are not planning any divestiture. I think the leverage of the Company will be accompanied by the margin expansion. As you know, last year we did the [capital] increase and we have significantly delivered to the Company -- as can be seen on slide number 12, the adjusted net debt over EBITDAR as of June 2012 was 6.6 times and currently we are running at 5 times.

So this is going to be a consequence of the expansion on the margins. But no divestiture are planned.

Daniel Guardiola - LarrainVial - Analyst

And regarding the timing, do you have any expected timing when you are expecting to come back to IG metrics?

Andres Osorio - LATAM Airlines Group SA - CFO

I think that question came up before and we said that according to the numbers that we expect to have our IG metrics roughly 3.5 times. This is -- I think it's more a long-term project. But according to the numbers that see maybe by 2016.

Daniel Guardiola - LarrainVial - Analyst

Okay, thanks.

Operator

Stephen Trent, Citi.

Stephen Trent - Citi - Analyst

Most of my questions have been answered at this point. Just one follow-up if I may. Your shift of the operations in Guarulhos airport to the new terminal, if you could remind me -- refresh my memory, one, when it's supposed to be done, and two, given the reduction in connection times if there is any upside from a block hour utilization perspective?

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

We believe that there's -- we are planning for the change -- the move from terminal 1 to terminal 3 for the international operations will happen by the end of September. Of course that has some flexibility given that it will move entirely the whole airport, so the coordination is happening among a lot of airlines. But it should happen by the end of the third quarter.

And, yes, you are absolutely right, the reduction in connecting time should not only give us more time to fly our planes, but also increase the number of [ONBs] served with the same flights in the same airport. So we increase our chances of connecting the number of passengers between the regional long-haul and domestic market while still helping us to increase our on-time performance metrics.

Stephen Trent - Citi - Analyst

Okay, great. Thanks for the color, Claudia. I appreciate that.



Claudia Sender - LATAM Airlines Group SA - CEO of TAM

You're welcome.

Operator

Bob McAdoo, Imperial Capital.

Bob McAdoo - Imperial Capital - Analyst

Just a couple of questions about Argentina and Chile. If I understood what you said that the devaluation of the Argentinean currency does not cause a much of a problem because in effect the percent of sales that you actually have or the tickets that are sold in and out of Argentina tend to be denominated more in dollars as are the expenses in dollars, and therefore, it's not out of balance and doesn't cause a problem. Is that what you were saying?

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Yes, Bob. Well, there's -- we differentiate. There's two types of impact from the devaluation. From a financial perspective we don't have an imbalance in terms of revenues and costs in Argentina, so we don't have a financial impact from a depreciation of the Argentine currency.

What we do have and what has impacted us this year is the fact that a devaluation, especially a very sudden devaluation in Argentina like the one that occurred early this year, has an impact on international travel because the international tickets are sold in US dollars, the international fares are set in US dollars. So they become more expensive for a passenger based in Argentina and therefore demand drops. And that's the impact that we've seen.

Nicolas Goldstein - LATAM Airlines Group SA - CEO - International

And probably -- this is Nicholas again. Since I'm from Argentina I'm too positive and this is well known. But really we do see a reduction in the demand and this is close to 20%. We don't see like a booming market there. There is a reduction in the demand close to 20%.

Bob McAdoo - Imperial Capital - Analyst

Thanks. Okay. And then over in Chile you said -- the currency there has been devalued to some extent. What is the -- from just a macro point of view in terms of what's going on in Chile? Why is the weakness there? What is it about Chile that is causing the overall weakness in the currency?

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Well, we've seen first a slowdown in terms of the macro growth estimates throughout the year and we saw the devaluation -- the peso has remained I think more or less stable this year, but there was a significant devaluation in February -- January and February. And I think that has to do with the general macro and political situation in the country this year.

It's still a healthy economic environment. We are still looking at a growing economy this year. But compared to -- last year we were looking at 460 pesos per dollar and today we are looking at 570. So it has stabilized at those levels, but early this year it had an impact.

Also significantly a large portion, as you know, of the Chilean economy is invested in mining industry, and so a slowdown in that industry this year has implied -- has had a significant impact and part of that -- those downward revisions to GDP growth.



Bob McAdoo - *Imperial Capital - Analyst*

Good, good, very helpful. Thank you. And then just one quick one to make sure I understand what was said about Venezuela in terms of -- you have restated this full amount, but you have received a modest -- it sounded like a modest payment with the balance at these rates to be returned to you over 4 years, is that correct? And if so, how much was the payment that you did receive?

Andres Osorio - *LATAM Airlines Group SA - CFO*

Hi. This is Andres again. During the year we have received close to about \$10 million from Venezuela. But this agreement that we have made with the government, we haven't received the initial payment yet. We think that this could happen within the next 15 to 30 days. But I hope to give this good news on the next conference call when we inform the quarter three.

But again, we -- if you take the cash that we have by December and the cash that we have today, we have less cash in Venezuela. The adjustment, it's only to evaluate the bolivars that we have at the moment in Venezuela and we have today about \$800 million -- VEF800 million in cash in banks in Venezuela.

So we have been diminishing -- our operation has diminished and we use the cash that we have to pay our cost of the operation there. So we are aware the situation of Venezuela is uncertain and what we want to do is to transfer that on our balance sheet. That's it.

We hope that the government of Venezuela will give us the right to repatriate, as we have said in our agreement. And there's no -- we don't see anything yet to say something different. So we will wait and see and hopefully I will have very good news for you on the next quarter. But our cash will be diminished month by month in Venezuela.

Bob McAdoo - *Imperial Capital - Analyst*

Okay. Well, if you do get -- it will be very helpful to all of us I think if you got a payment in the meantime. That you not wait until the next quarterly call to let us know. Just to put out some kind of release because it would help us all feel more comfortable, not only for you, but for all the airlines as to what might be the way to approach the problem. If there is a way that you can let us ---

Andres Osorio - *LATAM Airlines Group SA - CFO*

Don't worry. We will make it loud.

Bob McAdoo - *Imperial Capital - Analyst*

Make a nice loud clap or cheer or something would be helpful. Okay, thank you very much.

Andres Osorio - *LATAM Airlines Group SA - CFO*

Thank you.

Operator

Savi Syth, Raymond James.



Savi Syth - *Raymond James - Analyst*

Just a follow-up question on the international. With the Boeing 777 retrofits and moving to the new terminal, is there -- could you share some kind of -- again what the potential magnitude of impact would be? I mean like how much are you under earning because -- on the product side or just anything that could help us as we model this out?

Claudia Sender - *LATAM Airlines Group SA - CEO of TAM*

We do believe that we will have a very positive impact especially on our business class load factor and yield given the product improvement, which is very, very significant. Also, the quality of the products that LATAM will have in the new terminal is unparalleled by any airlines in this airport.

We will have by far the largest and the best VIP room. We will have the largest connection to serve both Brazil and the South American region. So we -- we do not disclose the order of magnitude, but we do expect a very significant increase in our yields especially coming from executive class load factor, but also from corporate overall, economy class, given the quality of the products that we will offer, the quality of the connection and the quality of the flows within Latin America and from Latin America to the other continents, given that LATAM is by far the airline that covers the largest flows within and to and from Latin America.

Savi Syth - *Raymond James - Analyst*

Hi, Claudia. And is -- so is the full impact -- should we expect that in the first quarter or would you see it right away in the fourth quarter?

Claudia Sender - *LATAM Airlines Group SA - CEO of TAM*

I think we will see part of it in the fourth quarter. But the full impact given the time that it will take us to implement the entire retrofit of all of the 777s, we will feel it in 2015 full year.

Savi Syth - *Raymond James - Analyst*

All right. I appreciate it. Thank you.

Claudia Sender - *LATAM Airlines Group SA - CEO of TAM*

Thank you very much.

Operator

Bernardo Villas, GBM.

Bernardo Villas - *GBM - Analyst*

Just a quick follow-up. You mentioned several savings per ASK coming from new and more efficient airplanes. But how will the leasing cost per ASK behave in this new planes compared to your current fleet?



Claudia Sender - LATAM Airlines Group SA - CEO of TAM

When we talk about the savings and cost per ASK of the aircraft, it includes -- it's the total impact. So it includes the fleet cost as well as the savings in terms of fuel. So when we compare a 787, for example, with a 767, the cost per ASK reduction of approximately 12% includes the efficiencies of the 787 as well as the fact that it's a more expensive aircraft than a 767 on average.

With the A350s, which will eventually replace the A330 fleet at TAM, when we look at that comparison, the reduction in terms of cost per ASK is more than 20% and that's comparing our A350 orders with the inferior configuration of those aircraft with the existing A330s in our fleet. And that reduction includes also the fleet cost. So they are all in numbers when we look at the cost per ASK reductions.

Bernardo Villas - GBM - Analyst

Okay, perfect Claudia. There has been rumors lately about TAM buying or acquiring this regional airline, Passaredo I think. And you have mentioned that you are very closely looking at the regional market in Brazil. So could we expect some acquisition in the market or will you think of entering this regional market by yourself?

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

The deal that we have with Passaredo is a [clear enter line] deal that we have with over 100 airlines across the world. So we are not looking into acquisition and it's just a partnership that makes sense for us to have a better coverage of the domestic market. Passaredo is totally supplementary to our network. They fly to destinations that we don't. So it makes sense for us to serve our customers better to have a partnership with an airline that flies to other destinations.

Bernardo Villas - GBM - Analyst

Okay. Thank you so much for your time.

Claudia Sender - LATAM Airlines Group SA - CEO of TAM

Thank you.

Operator

Thank you. It's the end of the question and answers. I would now like to turn the call over to Gisela Escobar for closing remarks.

Gisela Escobar - LATAM Airlines Group SA - Corporate Controller and IR Director

Well, thank you very much for participating in the call today and please feel free to reach out to us if you have any further questions. Thank you and goodbye.

Operator

Thank you again for joining us today. Please feel free to contact our Investor Relations department if you have any additional questions. We look forward to speaking to you again soon. This concludes the presentation. You may now disconnect. Thank you and have a good day.

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